



NORTH CAROLINA GENERAL ASSEMBLY

Session 2019

Fiscal Analysis Memorandum

CONFIDENTIAL

Requestor: Senators Tillman, Hise, and Newton
Analyst(s): Denise Canada
RE: PCS to S523, V2

SUMMARY TABLE

FISCAL IMPACT OF PCSS523, V.2

	<u>FY 2019-20</u>	<u>FY 2020-21</u>	<u>FY 2021-22</u>	<u>FY 2022-23</u>	<u>FY 2023-24</u>
State Impact					
General Fund Revenue	-	-	-	-	-
Less Expenditures	-	-	-	-	-
General Fund Impact	No Estimate Available - Refer to Fiscal Analysis section				

NET STATE IMPACT

Local Impact

Local Revenue	-	-	-	-	-
Less Local Expenditures	-	-	-	-	-
Local Impact	No Estimate Available - Refer to Fiscal Analysis section				

NET LOCAL IMPACT

FISCAL IMPACT SUMMARY

This fiscal memo discusses only the PCS sections that have a potential fiscal impact, which are the following:

- Section 3.1 broadens the sales tax on digital property to include digital property that does not have a taxable, tangible corollary. This section will increase State and local sales tax revenue by an unknown amount.
- Section 3.11 reduces State and local sales tax revenue by an unknown amount by limiting the types of car washes that are subject to the State's sales tax on repairs, installation, and maintenance services.
- Section 4.2 requires tobacco product licensees to renew their license every three years, whereas under current law licenses do not need to be renewed. However, the only fee

associated with the renewal is a late fee, so the change is unlikely to have a significant impact on State revenue.

- Section 4.6 imposes a use tax on non-cigarette tobacco products (“other tobacco products,” or OTP) brought into the State when tax has not been paid and when the person bringing the product into the State is not licensed as a tobacco wholesale dealer or retail dealer. This change has the potential to increase the State’s excise tax collections by an unknown amount.

FISCAL ANALYSIS

Section 3.1, Taxation of Digital Property

Under current law, digital property is subject to sales and use tax if it is also sold in the form of tangible personal property. Section 3.1 expands the definition of digital property to include property that does not have a tangible corollary. The expanded definition will increase both State and local sales tax revenue by an unknown amount.

Section 3.11, Car Wash Taxation

Under North Carolina tax law, certain maintenance services are subject to sales tax, although G.S. 105-164.13.(61a).(k) exempts “self-service car washes” from this tax. The PCS clarifies the definition of self-service car washes and also exempts from tax “limited-service vehicle washes,” a term newly-defined in the bill.

Creating a sales tax exemption for limited-service vehicle washes will reduce both State General Fund tax revenue and local government sales tax revenue. However, the North Carolina Department of Revenue does not collect data on the amount of tax revenue generated by individual services, and no data is available from which to calculate the revenue impact from this change, although it is expected to be minimal.

Section 4.2, Tobacco Licenses

Under current law, wholesale and retail tobacco dealers must obtain a one-time, permanent “tobacco products license.” Section 4.2 requires that these licenses instead be renewed every third year. Although the initial license fee is \$10 for retailers, \$25 for wholesalers, and \$25 for distributors, the PCS does not establish a fee for the renewal unless the renewal is late.

According to the Department of Revenue, the State has approximately 1,500 license holders. It cannot be predicted how many, if any, of these licensees would fail to renew their licenses on time, and therefore, no precise fiscal estimate is available. Late fee revenue, if any, will be minimal based on the low fee rate and the limited number of licensees.

Section 4.6, Use Tax on Other Tobacco Products

Under current law, North Carolina does not impose a use tax on OTP, although the State does impose a use tax on cigarettes. Imposing a use tax on OTP has the potential to increase the State’s



excise tax revenue by an unknown amount, but historically, it is known that compliance rates for use taxes are quite low. For this reason, no estimate is available and it is expected that any revenue generated by the change will be minimal.

TECHNICAL CONSIDERATIONS

N/A.



DATA SOURCES

North Carolina Department of Revenue

FISCAL ANALYSIS MEMORANDUM – PURPOSE AND LIMITATIONS

This document is a fiscal analysis of a bill, draft bill, amendment, committee substitute, or conference committee report that is confidential under Chapter 120 of the General Statutes. The estimates in this analysis are based on the data, assumptions, and methodology described in the Fiscal Analysis section of this document. This document only addresses sections of the bill that have projected direct fiscal impacts on State or local governments and does not address sections that have no projected fiscal impacts. This document is not an official fiscal note. If a formal fiscal note is requested, please email your request to the Fiscal Research Division at FiscalNoteRequests@ncleg.net or call (919) 733-4910.

